

Message Text

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PAGE 01 LAGOS 10480 01 OF 02 131135Z

ACTION AF-10

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 3674

INFO AMCONSUL IBADAN

AMCONSUL KADUNA

LIMITED OFFICIAL USE SECTION 1 OF 2 LAGOS 10480

E.O. 11652: N/A

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SUBJECT: ANALYSIS OF NIGERIAN ECONOMY: PART II

REF: STATE 212969

1. THIS SECOND CABLE IN SERIES ON "WHERE NIGERIAN ECONOMY IS GOING" EXAMINES OUTLOOK FOR COMMERCIAL BORROWING, FOREIGN EXCHANGE SCANDAL AND DIFFICULTIES OF INVESTMENT CLIMATE.

2. COMMERCIAL BORROWING. FMG HAS FINALLY BEGUN TO PUT BRAKES ON PROFLIGATE SPENDING THAT HAS CHARACTERIZED ITS FINANCES SINCE 1975. RECURRENT BUDGET HAS BEEN TRIMMED TO DOLLARS 4.5 BILLION WHICH CAN BE FINANCED ENTIRELY FROM CURRENT REVENUES ACCORDING TO MINFINANCE OFFICIALS. GOVERNMENT PLANNERS MAKING SINCERE ATTEMPT TO SET PROJECT PRIORITIES. FMG EXPECTS DOLLARS 18 BILLION SHORTFALL IN FINANCING THE PLAN THROUGH 1980. AS REPORTED LAGOS 10176, FMG EXPECTS TO OFFSET SHORTFALL BY RAISING DOLLARS 3 BILLION THROUGH INCREASED TAXES, DOLS 4.5 BILLION THROUGH EURODOLLAR LOANS AND DOLS 10.5 BILLION THROUGH INTERNAL BORROWING OVER
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PAGE 02 LAGOS 10480 01 OF 02 131135Z

NEXT THREE YEARS. NIGERIA'S GOING TO THE OFFSHORE MONEY MARKET REPRESENTS AN ABOUT FACE FOR A COUNTRY THAT HAS PRIDED ITSELF ON ITS LOW EXTERNAL INDEBTEDNESS. SINCE THE BANKS VIEW NIGERIA AS A GOOD RISK, EMBASSY BELIEVES THEY WILL READILY FINANCE FMG'S ESTIMATED DOLS 4.5 BILLION NEED THROUGH 1980.

3. LIKELY THAT FMG DOLS 10.5 BILLION INTERNAL BORROWING

REQUIREMENT WILL BE TOO MUCH TO HANDLE. TOTAL INSTITUTIONALIZED SAVINGS NOW STAND BETWEEN DOLS 3.5 - 4.0 BILLION AND ARE GROWING BY A MAXIMUM OF DOLS 500 MILLION A YEAR. ALSO, GIVEN 30 PERCENT PLUS RATE OF INFLATION, NOT LIKELY PUBLIC WILL SHIFT CONSUMPTION PATTERNS AND FOREGO PURCHASING CONSUMER GOODS TO ACQUIRE GOVERNMENT DEBT INSTRUMENTS YIELDING ONLY 4 - 5 PERCENT. THUS EMBASSY BELIEVES FMG WILL NOT BE ABLE TO RAISE INTERNAL BORROWING REQUIREMENT FROM DOMESTIC SAVINGS.

4. NIGERIA OF COURSE

HAS OTHER OPTIONS, BUT ALL CARRY PRICE OF LARGE SCALE INCREASES IN MONEY SUPPLY WITH CONSEQUENT WORSENING OF INFLATION. A LIKELY MEANS TO ACCOMPLISH THIS IS FOR QUASI-GOVERNMENT BANKING INSTITUTIONS, E.G., NIGERIAN INDUSTRIAL DEVELOPMENT BANK (NIDB) AND NIGERIAN AGRICULTURAL BANK (NAB) TO ACQUIRE FMG DEBT INSTRUMENTS. SINCE FMG TRADITIONALLY HAS PROVIDED CAPITAL TO NIDB, NAB AND OTHERS, THE FMG WOULD INANCE QUASI-GOVERNMENT BANKS TO FINANCE NEW FMG INDEBTEDNESS, I.E., FMG WOULD TURN ON THE MONEY PRINTING PRESS. HOWEVER, NIDB, NAB ET AL WOULD NEED TO BE RESTRUCTURED TO HANDLE THE HUGE INCREASES IN THEIR FUNDING OPERATIONS AS WELL AS TO REDIRECT THEIR ORIENTATION AWAY FROM PRIVATE TO PUBLIC SECTOR ACTIVITY. ANOTHER POSSIBLE ALTERNATIVE INCLUDES THE 19 STATES INDIVIDUALLY SEEKING FINANCING FOR THEIR OWN DEVELOPMENT PLANS. NONETHELESS, ALTHOUGH SOME STATE PROJECTS COULD QUALIFY FOR EXTERNAL LOANS, THE GENERALLY POOR FINANCIAL CONDITION OF THE STATES PRECLUDE LIMITED OFFICIAL USE

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PAGE 03 LAGOS 10480 01 OF 02 131135Z

MASSIVE BORROWING ON THEIR OWN. A THIRD APPROACH IS THE FMG BORROWING FROM THE INTERNATIONAL BANKS OVER THE CITED DOLS 4.5 BILLION ESTIMATE. STILL ANOTHER ALTERNATIVE SOURCE FOR FUNDS, ONE WHICH THE FMG WILL NOT FULLY ADMIT AND FACILITATE, IS STRONG FOREIGN INVESTMENT. IF THIS INFLOW IS TO BE MEANINGFUL, FMG MUST MAKE LOCAL ENVIRONMENT ATTRACTIVE BUT AS DISCUSSED IN SUBSEQUENT PARAGRAPHS, THE EFFORT SO FAR HAS BEEN MORE BUMBLING THAN ENCOURAGING.

5. LEGAL ENVIRONMENT'S IMPACT ON INVESTMENT. FOREIGN EXCHANGE SCANDAL HAS BEEN FAIRLY WELL COVERED IN SERIES OF CABLES, BUT ONE ASPECT, SPECIFICALLY THE INFRINGEMENT OF LEGAL RIGHTS, WOULD MERIT GROWING ATTENTION. DEFENSE LAWYERS IN CASE, WHO INCLUDE SOME OF THE MOST PRESTIGIOUS BARRISTERS IN COUNTRY, HAVE OBTAINED WIDESPREAD BACKING IN THE LEGAL COMMUNITY IN PROTESTING THAT RECENT FOREIGN EXCHANGE DECREE IS UNCLEAR AND UNFAIR, THAT THE SENTENCES LEVIED ON ACCUSED ARE EXCESSIVE, AND THAT PEOPLE WERE FOUND GUILTY OF CRIMES BEFORE THE PENALTIES FOR THE CRIMES WERE ESTABLISHED. THE LAWYERS INTEND TO APPEAL TO HEAD OF STATE IN ORDER TO PRESERVE LEGAL STRUCTURE OF THE COUNTRY FROM FURTHER "DETERIORATION."

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PAGE 01 LAGOS 10480 02 OF 02 131012Z
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TO SECSTATE WASHDC 3675
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LIMITED OFFICIAL USE SECTION 2 OF 2 LAGOS 10480

6. PROBLEM CITED BY LAWYERS IS PART OF UNCOMFORTABLE LEGAL ENVIRONMENT WHICH IS INCREASINLY TROUBLESOME TO PRIVATE SECTOR ECONOMIC ACTIVITIES. IN WHAT ESSENTIALLY IS A SINCERE EFFORT TO STIMULATE GROWTH AND CORRECT ABUSES, CURRENT REGIME HAS CHURNED OUT DECREES AND REGULATIONS WHICH HAVE CAUSED ECONOMIC DISTORTIONS, DISCOURAGED INVESTMENT AND RAISED QUESTIONS OVER LEGAL PROPRIETY. THERE IS TNEDECY TO BACKDATE LAWS AND MAKE RULES RETROACTIVE. REGULATIONS ARE SUFFIEICIENTLY VAGUE TO CAUSE A HOST OF DIFFERING INTERPRETATIONS. DECREES ARE ISSUED WITH UNFORESEEN SUDDENNESS AND NO PRIOR DISCUSSION, CAUSING IMPLICATIONS TO BE OVERLOOKED AND HARMFUL CONSEQUENCES TO RESULT. DECREES, NOT FULLY THOUGHT OUT BEFOREHAND, ARE OFTEN OVERREACTIONS TO PROBLMES. THEY FREQUENTLY CANNOT BE ENFORCED, THUS ADDINT TO THE BUREAUCRATIC WORKLOAD AND LOWERING CREDIBILITY OF GOVERNMENT. COORDINATION BETWEEN FMG MINISTRIES AND AGENCIES REMAINS VERY WEAK, MAKING IMPLEMENTATION AND UNDERSTANDING OF REGULATIONS ALL THE MORE DIFFICULT. TO COUNTER THESE GOVT-GENER-ATED DISTORTIONS, THE FMG IS PRONE TO ISSUE MORE RULES. THUS PLACING MORE RESTRAINTS ON MANAGERS AND CAUSING MORE FRUSTRATIONS PERMEATING ALL THIS IS UNCERTAINTY OF WHAT IS COMING NEXT. THE MAJORITY OF BUSINESSMEN HERE REGARD THIS AS ESPECIALLY DISCOUR-
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PAGE 02 LAGOS 10480 02 OF 02 131012Z

AGING BECAUSE IT HINDERS FORWARD PLANNING. "EVEN IF THE RULES OF THE GAME WERE DIFFICULT, ONE COULD PLAN HOW TO PLAY THE GAME." BUT HERE THE RULES CHANGE.

7. DESPITE THESE OBSTACLES INVESTMENT TRENDS APPEAR TO BE UPWARD. AMERICANS ARE EXPANDING EXISTING OPERATIONS (E.G., FOREMOST DAIRIES, ABBOTT LABORATORIES) CONSIDERING ESTABLISHMENT OF NEW INSTALLATIONS (E.G., PHILADELPHIA QUARTZ, UNION CARBIDE, GENERAL ELECTRIC) AND TRYING TO FORM JOINT VENTURES WITH THE FEDERAL GOVERNMENT (E.G. BECHTEL, DRACO) AS WELL AS WITH PRIVATE SECTOR PARTNERS.
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